Shareholders slip down the pecking order

Lisa Macnamara
Governance

AUSTRALIAN company directors are less inclined than their US counterparts to make shareholders their top priority, new research suggests.

The Australian-first study from Melbourne University details how 400 directors from a range of corporate entities balance the interests of shareholders, employees, creditors, suppliers and corporate social responsibility.

"Directors are doing quite a sophisticated job of balancing the interests of a range of interests of stakeholders," said study leader Ian Ramsay, from the Centre for Corporate Law and Securities Regulation. "The view that has been around partly, I suspect, reflecting a James Hardie view is that paramount in all of this are the interests of shareholders and one must vigorously pursue their interests, perhaps at the expense of other stakeholders."

Customers were ranked as the top stakeholder by 8 per cent of directors, while many placed shareholders only slightly ahead of their own staff.

Recent studies have indicated 80 per cent of US directors rank shareholders ahead of their own staff, a standard that 40 per cent of the Australian directors have followed.

"The largest proportion of directors ranked shareholders No 1 — but when you asked a range of questions, you see that the interests of employees were ranked very highly," Professor Ramsay said.

More than 50 per cent of directors believed that acting in the best interest of the company, as required by law, boosted the interests of stakeholders while a quarter reported tension between the firm and shareholders, most commonly over the company's financial performance.

Corporate social responsibility had also moved higher on local directors' agendas, compared with previous research both here and overseas.

"They're moving towards a more balancing role, with some of the earlier studies showing a stronger preference to prioritise shareholder interests at the expense of others," Professor Ramsay said.

The survey had some implications for policy in light of the recent debate about reforming the law of directors' duties following recent government inquiries, the researchers said.

"The research clearly shows that the director duties that we currently have in Australia are sufficiently broad to allow directors to balance a range of interests of stakeholders and not to focus on short-term or long-term interests of shareholders," Professor Ramsay said.